
**UNIVERSIDAD INTERAMERICANA DE PUERTO RICO
NEEDS TO IMPROVE ITS ADMINISTRATION
OF TITLE IV PROGRAMS**

FINAL AUDIT REPORT

Statements that management practices need improvement, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determination of corrective action to be taken will be made by appropriate Department of Education officials. This report may be released to members of the press and general public under the Freedom of Information Act.



**Audit Control Number A02-80005
July 23, 1999**

Our mission is to promote the efficient
and effective use of taxpayer dollars
in support of American education.

U.S. Department of Education
Office of Inspector General
New York, NY



Table of Contents

Executive Summary	1
<i>Finding 1</i> IAU over awarded \$1,013,401 in Pell Grant funds	2
Recommendations.....	3
IAU's response.....	3
OIG comments	3
<i>Finding 2</i> IAU awarded \$152,309 in Title IV funds to students enrolled in an ineligible program.....	4
Recommendations.....	4
IAU's response.....	5
OIG comments	5
<i>Finding 3</i> IAU must determine Title IV refunds due, estimated to be \$99,198, for withdrawn students.....	6
Recommendations.....	8
IAU's response.....	8
OIG comments	8
<i>Finding 4</i> IAU must use caution when entering students' addresses into databases	9
Recommendations.....	9
IAU's response.....	10
OIG comments	10
<i>Finding 5</i> IAU must resolve all conflicting information is students' files before disbursing Title IV aid.....	11
Recommendations.....	11
IAU's response.....	11
OIG comments	11
Appendix:	
<i>Background.....</i>	<i>12</i>
<i>Audit objectives.....</i>	<i>12</i>
<i>Methodology & scope.....</i>	<i>12</i>
<i>Internal controls</i>	<i>14</i>
 Exhibit A:	 <i>IAU's Calculation of Pell Grant Over Awards for 1996/97 and 1997/98</i>
Exhibit B:	<i>Excerpts from IAU's response to the Draft Audit Report</i>

Universidad Interamericana de Puerto Rico needs to improve its administration of Title IV programs

Executive Summary

We conducted an audit of Universidad Interamericana's (IAU) administration of Title IV programs for the period July 1, 1996 through June 30, 1998. Our specific audit objectives were:

- To determine the cause of numerous undeliverable Student Aid Reports (SARs); and
- To follow-up on recent Office of Student Financial Assistance's (OSFA) findings involving refunds and IAU's Early Admissions Program (EAP).

Our audit disclosed that IAU:

- Converted 12 certificate programs from clock to credit hours using an improper conversion formula which resulted in over awards totaling \$1,013,401 in Pell Grants to students for award years 1996/97 and 1997/98;
- Awarded \$152,309 in Title IV funds to students enrolled in an ineligible certificate program for the award year 1997/98;
- Failed to identify all refunds due in response to OSFA's program review; in addition to the \$1,749,631 identified by IAU as refunds due for award years 1994/95 through 1996/97, an estimated \$99,198 is due for withdrawn students for award years 1996/97 and 1997/98;
- Failed to timely pay refunds;
- Failed to consistently follow U.S. Postal requirements and failed to input data properly, resulting in numerous undeliverable SARs; and
- Failed to resolve conflicting information for one student prior to awarding Title IV funds.

IAU modified its Early Admissions Program in response to OSFA's concerns and ceased awarding Title IV funds to EAP students after the 1995/96 award year.

We recommend that IAU refund all Pell Grant funds over awarded to students enrolled in improperly converted certificate programs and Title IV funds to students enrolled in ineligible programs. In addition, we recommend IAU review its computer systems to identify all incorrect coding to ensure that all withdrawn students are properly identified and refunded. IAU must also use caution when entering addresses into databases for Title IV recipients. Further, IAU must improve its controls when resolving conflicting information in students' files. We have provided several recommendations to address the causes of the findings reported.

IAU agrees with the findings reported and has taken action in response to our recommendations. We have changed our findings to reflect the additional information received from IAU. An excerpt of the detailed response is attached as Exhibit B. A complete copy of IAU's response will be made available upon request.

Finding 1

***IAU over awarded
\$1,013,401 in Pell Grant
funds***

IAU converted 12 certificate programs from clock to credit hours using an improper conversion formula. Federal regulations require schools that convert clock hour programs to credit hour programs to use 30 class hours of instruction for one semester credit hour. However, IAU used the following:

15 classroom hours = 1 semester credit hour

30 lab hours = 1 semester credit hour

45 internship hours = 1 semester credit hour

Criteria

Federal regulation 34 CFR 668.8 (k) states that institutions offering undergraduate programs in credit hours must use the ratio of one semester hour for at least 30 clock hours. In addition, the 1997/98 Student Financial Aid Handbook, Chapter 3, page 219, requires ED's written approval for changing a program from clock to credit hours of instruction.

A complete listing of the 12 programs identified with original clock hours, IAU's converted credit hours, and OIG's converted credit hours can be found in Exhibit A. In response to the draft audit report, IAU calculated the Pell Grant over awards totaling \$1,013,401 for the students enrolled in these 12 certificate programs during the 1996/97 and 1997/98 award years.

As reported in Finding 2 in this report, IAU offered two certificate programs with insufficient course length to be eligible for Title IV assistance. IAU also improperly converted these programs from clock to semester credit hours. However, over award amounts have not been totaled for these two programs because disallowed costs have been reported as ineligible programs.

Failed oversight

Periodically schools must be recertified to participate in the Student Financial Assistance programs. Recertification requirements demand institutions provide information for each educational program requested in order to be eligible to participate in the Federal Student Financial Assistance programs. IAU submitted its recertification package in April 1995. However, IAU failed to report the certificate programs. Further, IAU did not include these certificate programs in any school catalogs, resulting in the inability of ED components and IAU's accrediting agency to become aware of and monitor the programs. Had IAU included the certificate programs in catalogs, ED and/or the accrediting agency could have monitored the administration of the programs and identified the improper

clock to credit hour conversion and the insufficient course length discussed in Finding 2 of this report.

Recommendations

We recommend the Chief Operating Officer for the Office of Student Financial Assistance require IAU to:

- Refund the Pell Grant program \$1,013,401 identified as over awards for students enrolled in improperly converted certificate programs for the award years 1996/97 and 1997/98;
- Determine the funds over awarded to students enrolled in subsequent and prior award years and repay Pell Grant funds;
- Follow the accrediting agency's recommendation to report all certificate programs in catalogs; and
- Submit an amended Application for Institutional Participation including all certificate programs.

IAU's response

IAU agreed with the audit finding and calculated the over awards to students enrolled in the certificate programs. In addition, IAU has issued a new catalog reporting all certificate programs and is working with ED on submitting an amended Application for Institutional Participation.

OIG comments

IAU's action should remedy the situation. However, IAU should reconcile the certificate programs for subsequent and prior year awards and refund the over awards to ED. IAU should institute controls to ensure that the Federal guidelines are followed in the clock to credit hour conversion for future certificate programs.

Finding 2***IAU awarded \$152,309 in Title IV funds to students enrolled in an ineligible program***

IAU awarded \$152,309 in Student Financial Aid to students enrolled in an ineligible certificate program for the award year 1997/98. However, for the 1998/99 award year, IAU offered a second program which was also ineligible for Title IV funds because its course length was less than the required 480 clock hours (16 semester credit hours).

Criteria

Federal regulation 34 CFR 668.8 (d) (ii) states eligible programs must be at least 16 semester hours or the equivalent 480 clock hours.

Insufficient program length

Audit testing identified two certificate programs with insufficient clock hours. These two programs, Computer Science at the Barranquitas campus, and Medical Billing at Guayama campus are 405 and 465 clock hours, respectively. The Computer Science program is ineligible for just the 1998/99 award year because in prior years the program was offered at 645 clock hours. In response to the draft audit report, IAU calculated that it had improperly awarded \$152,309 to students enrolled in the Medical Billing program for award years 1996/97 and 1997/98. However, IAU has not computed ineligible awards for the Computer Science program for the 1998/99 award year.

Recommendations

We recommend the Chief Operating Officer for the Office of Student Financial Assistance require IAU to:

- Refund \$152,309 in Title IV funds awarded to students in the ineligible certificate program;
- Institute adequate procedures to ensure that Title IV funds are awarded only to students in eligible programs;
- Calculate Title IV awards to students enrolled in the Computer Science program at Barranquitas for the 1998/99 award year and refund the funds to ED and lenders; and
- Determine if any funds should be refunded for students enrolled in ineligible programs prior to the audit period.

IAU's response

IAU agreed with the finding and calculated the amount of Title IV funds to be refunded to ED and lenders for the Medical Billing program. IAU reported the Computer Science program at Barranquitas was 645 clock hours for award years 1996/97 and 1997/98. The program was reduced to 405 clock hours in 1998/99. IAU computed the Pell Grant over award for award years 1996/97 and 1997/98; these amounts are included in Finding 1.

OIG comments

IAU actions should remedy the situation. IAU should determine if additional funds are due to ED and lenders for award years prior to the audit period.

Finding 3

IAU must determine Title IV refunds due, estimated to be \$99,198, for withdrawn students

IAU failed to implement proper controls for identifying all Title IV refunds due for withdrawn students. As a result, we estimate that IAU must refund \$99,198 in Title IV funds for students who stopped attending classes during the 1996/97 and 1997/98 award years. IAU also was late in paying refunds for 44 withdrawn students included the total population of students tested. These refunds ranged from 3 to 389 days late, with the average being 174 days late.

Criteria

Federal regulation 34 CFR 668.22 (h) (2) (iv) states that for Pell, SEOG, and Federal Perkins programs, an institution must return the Federal portion of the refund within 30 calendar days of the date the student officially withdraws or the date the school discovers that the student has unofficially withdrawn. In addition, 34 CFR 682.607 (c) (1) states that FFEL and FDLP refunds must be returned to the lender or the loan program within 60 days of the student officially withdrawing, or the date the school discovers that the student has unofficially withdrawn, or the expiration of the semester in which the student withdrew.

OSFA's refund finding

In May and June 1996, OSFA reported that IAU failed to apply appropriate refund policies. In response to the program review, IAU has identified approximately \$1,749,631 in refunds due to lenders and ED for award years 1994/95 through 1996/97. IAU has yet to pay the refunds because they have not been instructed to do so.

We conducted a limited review of IAU's new refund policy and found that the corrected refund policy was in place. Audit tests performed to verify that IAU had properly refunded Title IV funds to students who earned no college credit for any semester in the 1996/97 and 1997/98 award years revealed two refund problems:

- IAU failed to identify all withdrawn students in response to the program review and also for the 1997/98 award year; and
- IAU made refunds late.

OIG refund tests – 1996/97

For award years 1996/97 and 1997/98 we identified, from the electronic data submitted by IAU, all students who earned no college credit but received Title IV aid. From this universe, we identified all students who had withdrawn within the timeframe of possibly having a refund due under Federal refund guidelines. Lastly, we traced these students to IAU's listing of refunds due

for the 1996/97 award year compiled in response to the program review. As a result, we identified a universe of 213 students who withdrew within the timeframe of having a refund due for the 1996/97 award year.

A total of 91 of the 213 students were selected for testing. From the universe tested, we identified the following:

- 63 students (69%) require refunds;
- 14 students (16%) had refunds paid on time;
- 13 students (14%) were enrolled; and
- 1 student (1%) was refunded 35 days late.

To estimate refunds due for the 1996/97 award year, we applied the above results to the 213 students identified as having withdrawn within the timeframe of having a refund due, and estimated that 148 students require refunds for the 1996/97 award year. Based on the average Title IV aid received of \$1,281 and 25%¹ for an applicable refund percentage, we estimate Title IV refunds could be \$48,984 for students who stopped attending during the 1996/97 award year.

*OIG refund tests –
1997/98*

For award year 1997/98, electronic data identified a total of 659 Title IV recipients as having earned no college credit and withdrawing within the timeframe of possibly having a refund due. We randomly selected 80 students for testing and found:

- 23 students (29%) require refunds;
- 11 students (14%) had refunds paid on time;
- 3 students (3%) were enrolled; and
- 43 students (54%) had refunds paid on average 177 days late.

To estimate refunds due for the 1997/98 award year, we applied the 29% of students requiring a refund to the 659 students identified as having withdrawn within the timeframe of having a refund due and estimated that 189 students require refunds. Based on the average Title IV aid received of \$1,062 and 25% for an applicable refund percentage, we estimate Title IV refunds could be \$50,214 for students who stopped attending during the 1997/98 award year.

Understated estimate

Additional tests performed on students identified by IAU on

¹ We used the lowest refund percentage that can be applied for determining refunds based on the date a student withdraws when in fact, some students withdrew on a date when a higher percentage should have been used.

electronic databases as students with no college credits earned and no Title IV aid for award years 1996/97 and 1997/98 revealed students who actually received Title IV aid. Testing revealed these students had refunds due and late refunds paid. As a result, the \$99,198 questioned costs are underestimated.

*Identification of
withdrawn students*

IAU's computer system does not support Federal guidelines for processing Title IV refunds. IAU is working on modifying the system in order to make it compatible with Title IV refund requirements. IAU officials were unable to provide us with a specific cause for late refunds paid on average 174 days late.

Recommendations

We recommend the Chief Operating Officer for the Office of Student Financial Assistance require IAU to:

- Repay lenders and ED the \$1,749,631 in refunds identified as part of OSFA's program review;
- Revise its computer system to identify all incorrect coding to ensure that all withdrawn students are properly identified and refunded;
- Identify and refund all Title IV funds due to lenders and ED for the 1996/97 through 1998/99 award years; and
- Follow Federal guidelines regarding timely payments of refunds.

IAU's response

IAU agrees with the finding and will await payment instructions. IAU has developed and implemented procedures to improve existing codes to ensure all withdrawn students are properly detected and refunded according to Federal refund policies and datelines.

OIG comments

IAU actions should remedy the situation. However, the refund amount reported in the finding is an estimate. IAU must determine the refunds due to ED and lenders for all withdrawn students requiring refunds for the award years 1996/97 and 1997/98. IAU should also ensure that all refunds have been properly identified for the 1998/99 award year.

Finding 4***IAU must use caution when entering students' addresses into databases***

IAU failed to properly input addresses in the Student Aid Reports (SARs) of approximately 700 students for the 1996/97 award year. IAU did not always follow U.S. Postal requirements, and data input errors resulted in SARs being returned to the central processor as undeliverable. In addition, the address fields for the Free Application for Federal Student Aid (FAFSA) is 28 characters. As a result, in some instances, the number of characters was not sufficient for students' addresses.

From the universe of 700 students with undeliverable SARs, we selected a judgmental sample of 25 students from the Rio Piedras campus and found that one student did not attend IAU and did not receive Pell Grant funds. For the remaining 24 students, we compared the SAR addresses to the addresses in the students' files and determined that 15 of the 24 addresses in the SARs agreed with the addresses in the students' files. The remaining nine students had the following address problems:

- 6 had too many characters for address fields, or had incorrect abbreviations in the inputted addresses; and
- 3 had data input errors.

We sent questionnaires to the 25 students selected for testing, of which two were returned as undeliverable. These two are included in the nine students with address problems.

Criteria

Federal regulation, 34 CFR 668.16(f) states that "To begin and continue to participate in any Title IV, HEA program, an institution shall. . . Develop and apply an adequate system to identify and resolve discrepancies in the information that the institution receives from different sources with respect to a student's application for financial aid. . ."

Recommendations

We recommend the Chief Operating Officer for the Office of Student Financial Assistance require IAU to:

- Work with the U.S. Postal Service to identify proper abbreviations for island addresses; and
- Provide orientation to students and financial aid personnel for proper input of data.

In addition, the Chief Operating Officer should work with the FAFSA contractor to determine if the address character fields can be expanded.

IAU's response

IAU agrees with the finding and will enforce corrective action for alerting financial aid directors of the importance of verifying all addresses are input correctly. IAU concurs that the Chief Operating Officer of Student Financial Assistance should request modifications to the ED Express program.

OIG comments

IAU's actions should remedy the situation.

Finding 5

IAU must resolve all conflicting information in students' files before disbursing Title IV aid

As a result of financial aid personnel not being familiar with Title IV regulations, IAU failed to resolve conflicting information for one student resulting in an improper disbursement of Pell Grant funds totaling \$3,348 for the 1995/96 and 1996/97 award years. Conflicting information appeared in a student's Social Security number and the student's name as reported in the FAFSA, and the 1995/96 and 1996/97 Electronic Student Aid Reports (ESAR).

Criteria

According to 34 CFR 690.61, in order for a student to receive a Pell Grant, the university should receive a valid SAR or ESAR; valid means that the information has to be accurate and complete. When there is a discrepancy, the university is responsible for verifying that the discrepancy be corrected.

Recommendations

We recommend the Chief Operating Officer for the Office of Student Financial Assistance require IAU to:

- Return the \$3,348 of Title IV aid improperly disbursed; and
- Institute controls to ensure all discrepancies and conflicting information is resolved before disbursing Title IV aid.

IAU's response

IAU agreed with this finding and will refund the money when instructed by OPE. Also, IAU has re-oriented all Financial Aid Directors about the importance of following procedures to comply with this requirement.

OIG's comments

IAU's actions should remedy the situation.

Background

Universidad Interamericana de Puerto Rico, also known as InterAmerican University (IAU), is a private co-educational, non-profit institution of higher education. Founded in 1912 as the Polytechnic Institute of Puerto Rico, it offered elementary and secondary education on the land occupied today by the San German Campus. College-level courses were started in 1921. The first students graduated in 1926 with Bachelor degrees.

In 1944, IAU became the first four-year Liberal Arts college to be accredited outside the continental United States by the Middle States Association of Colleges and Schools (MSA). IAU's School of Law is accredited by the American Bar Association. IAU's Associates, Bachelor, Master and Doctoral degrees are licensed by the Council on Higher Education of Puerto Rico, while its technical vocational programs are licensed by the Puerto Rico General Council of Education. IAU is approved by the Veterans Administration and Puerto Rico's Department of Education. The School of Optometry was inaugurated in 1981.

Enrollment is over 42,000 and constitutes approximately 25 percent of the Island's college students, and 40 percent of the students who attend the Island's private higher educational institutions. Campuses are located in Aguadilla, Arecibo, Barranquitas, Bayamon, Fajardo, Guayama, Ponce, Rio Piedras, and San German.

IAU participates in the Pell, SEOG, CWS, Perkins, and FFEL programs. Per electronic data provided by IAU, Title IV funds disbursed during the 1996/97 award year totaled approximately \$106,677,197, and \$67,753,318 during the 1997/98 year. However, these totals are understated based on audit testing.

Audit objectives

Our objectives were to (1) determine the cause(s) of numerous undeliverable Student Aid Reports (SARs); and (2) follow-up on recent OSFA findings involving refunds and the Early Admissions Program.

Methodology & scope

To accomplish our objectives, we interviewed officials at IAU and evaluated the institution's processes for administering Title IV funds. We reviewed Federal regulations and the Student Financial Aid Handbook to determine whether IAU was administering the programs following specific guidelines. We also reviewed information maintained at the Puerto Rico General Council of Education and the Council on Higher Education of

Puerto Rico. We also reviewed IAU's A-133 audit report for the year ending June 30, 1997, the program review reports issued by the Office of Student Financial Assistance for the period June 1, 1993 to July 31, 1996, and IAU's responses to the program reviews.

Using OSFA's listing of undeliverable SARs, we judgmentally selected 25 students for testing why the SARs were undeliverable. We mailed questionnaires to these 25 students, of which two were returned by the post office as "return to sender for insufficient address" or "address unknown." We received no completed questionnaires. We telephoned 15 of the remaining 23 students and verified that they attended IAU. From this sample, we tested for general compliance with SFA regulations.

IAU provided data in electronic format for Title IV recipients for the 1996/97 and 1997/1998 award years. We used these files to determine the questioned costs reported for findings involving students enrolled in ineligible programs and refunds due. Judgmental and random samples were used to test the reliability of electronic data provided by IAU. See *Data reliability assessment* below.

Audit period

Our audit covered the period July 1, 1996 through June 30, 1998. We performed fieldwork at IAU's Rio Piedras campus from September 23, 1997 to March 24, 1999. We also conducted site visits and conducted interviews at the following campuses: Aguadilla, November 17, 1998; Arecibo, November 12, 1998; Barranquitas, November 13, 1998; Bayamon, November 24, 1998; Fajardo, November 18, 1998; Guayama, November 6, 1998; Ponce, November 16, 1998; and San German, November 17, 1998.

Our audit was conducted in accordance with generally accepted government auditing standards appropriate to the audit scope.

Data reliability assessment

For the electronic information tested, we traced data on a sampling basis back to source documents at IAU. We found the electronic information to be accurate but incomplete. We determined that some data for the 1996/97 and 1997/98 award years was missing. As a result, the data used as the basis for the opinions, conclusions, and recommendations in this report is underestimated.

Internal controls

As part of our audit, we performed a limited assessment of the system of internal controls, policies, procedures, and practices applicable to IAU's administration of Title IV programs. We relied primarily on the results of substantive tests to evaluate controls.

For the purpose of this report, we assessed and classified the significant controls into the following categories:

- Student eligibility; and
- Program eligibility.

Material weaknesses

Because of inherent limitations, a study and evaluation made for the limited purposes described above would not necessarily disclose all material weaknesses in the internal controls. However, our assessment disclosed weaknesses, specifically failure to properly identify withdrawn students and improperly award Title IV funds to students enrolled in ineligible programs, which could adversely affect the Department's ability to assure that the Title IV programs are effectively administered. These weaknesses and their effects are discussed in the findings of this report.